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regional nationalism almost got out of hand a year and a half ago. The League of Communists of Yugoslavia (LCY), backed up by the power of the Army, has moved to reassert its authority over activities at all levels of Yugoslav political life. The occasional anti-Western fall-out of the LCY's tightening-up process should not distract our attention from whatever real accomplishments the Yugoslav government and Party have made and will make in enhancing all-Yugoslav strength and cooperation.

The wide regional disparities in economic development constitute the most serious continuing potential threat to Yugoslav cohesion. Even with decentralization of the economy and the demands of the economic stabilization program, the government continues to channel resources to the least-developed areas of the country. The need for capital and technology from abroad will require, as in the past, an active policy on the part of the Yugoslavs to increase this country's bilateral economic contacts and seek more advantageous relations with the EC and CEMA. The Yugoslavs will play a greater role in the future among the developing countries; in upcoming negotiations we expect them to seek preferential treatment for the developing countries in all areas, including SDR link, non-reciprocity on tariffs and equal treatment of all less-developed countries in the markets of developed countries. It would serve US policy to work closely with the Yugoslavs in multilateral trade negotiations and to take joint or parallel initiatives on specific trade issues that serve our mutual interests. Increased US economic activity in the least-developed areas of Yugoslavia and particularly in the field of agriculture will help support our goal of a more viable Yugoslav federation.

Our contacts in the economic and other fields will further improve with the realization of high-level visits now only in the planning stage. An early visit to Yugoslavia by the Secretary of Defense would speed the normalization of relations between military/defense staffs of the two countries. The most important visit now planned from the Yugoslav side is that of Premier BIJEDIC, hopefully to take place in 1974. END SUMMARY.

BACKGROUND: In an effort to reconstitute itself as a cohesive force in the political sphere, the Party has in the past year increased its control over activities at all levels of Yugoslav political life. This tightening-up process had been signalled at the Second LCY Conference a year and a half ago and was emphatically demanded in last autumn's letter from Tito and the Party Executive Bureau to all Party members. "The Letter" has served as the touchstone for

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subsequent LC activity and intervention in broad areas of the Yugoslav society. Increased Party control and discipline has done away with anything that remained of decentralization in Republic/Province Party organizations after nationalistic outbreaks got beyond the control of the local Party leaders in Croatia late in 1971. Some capable Republic and Province leaders have been ousted in the process, but to date there has been nothing to resemble the extensive Party/government removals which took place in Croatia starting in December 1971 after Tito's intervention.

Tightening-up in the Party has been reflected in certain other sectors. Internal security organs have been given increased powers in connection with prosecution as well as the most favorable publicity they have enjoyed since the fall of RANKOVIC (1966). This is partly as a reaction to the armed incursion of a band of 19 Croatian terrorists from abroad last summer, partly to give the police more authority to deal with increasing crime and economic corruption, and partly to strengthen the Party's hand in its move to restore its authority. There are as yet unconfirmed reports of the removal of Presidential Security Advisor Miskovic, one of those who called loudest for vigilance against Western influences threatening Yugoslav security. If true, this could signify some relaxation -- although not abandonment -- of the "vigilance" campaign.

Some professors, particularly in the Philosophical Faculty at Belgrade University have been threatened with expulsion from the Party because of "liberalism" or too close ties to the West; the relevant party organizations are in the process of dealing with demands for expulsion from higher up. The Party has simultaneously clamped down on some media reporting and programming; the press, radio and television are generally avoiding controversies, putting greater emphasis on worker and Party "news" and down-playing somewhat material from the West; media attacks against the West, although still only intermittent, have increased in the past year. Some Yugoslavs have shown inhibitions in their contacts with official US programs in the educational, cultural and information fields, such as the International Visitors Program, but there has been no broad damage to these contacts to date. Rumors about repression in Yugoslavia and a return to authoritarianism are exaggerated and misleading and have simply provided material for more anti-Western press stories here.

The single most important factor is still Tito himself -- chief of state, head of the Party, and commander-in-chief of the armed forces. We believe from direct evidence that stories about his being in poor health or becoming senile are not true. While he may tire more quickly with advancing age, at 81 Tito remains active, alert and in effective control of party and state -- when he has to be.

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DOLANC, recently re-elected Secretary of the LCY Executive Bureau, is by no means the clear heir apparent even to Tito's Party position, although he is obviously in the best position at this time to move into the top LCY spot when Tito leaves it. (While long-time Tito aide and chief Party ideologue KARDELJ is also spoken of here as a long-shot candidate to succeed Tito in the Party, he seems to us to be somewhat removed from the center of Party power and activity.)

In fact, there has been no move to prepare Yugoslavs for an individual successor to all of Tito's powers. On the contrary, the collective Presidency, which has been in office only two years, is being trimmed down in size under the provisions of the draft Yugoslav constitution in an attempt to increase its effectiveness for the day when it will be called on to act on its own initiative and not as Tito's surrogate. The head of the Party will also be a member of the Presidency under this reorganization plan.

The army (JNA) remains the other principal source of power for all-Yugoslav unity, backing up the cohesive political force of the Party. There is a meeting of minds between the JNA and the Party since both stand for the perpetuation of the tradition of military professionalism and national preparedness, and it seems unlikely there will be any change in this picture. The JNA has apparently been careful not to assume openly any policy-making role, presumably preferring to rely on interest-groups within the Party to serve its political and professional ends.

On foreign policy Yugoslavia has been increasingly running with the radical pack in the nonaligned movement to maintain its position of leadership in the movement. It is pulling out all stops as it seeks converts to the cause and brings world attention to bear on the Algiers Nonaligned Summit this September. Yugoslavia portrays itself as the leader of the struggle of the developing have-nots against the greedy developed countries. The West in general has at times come under fire from Yugoslav leadership, a situation explicable in part as a reaction to stretched stories in the Western press about Yugoslavia's disintegrating, in part as an inevitable by-product of the sharp re-emphasis of "self-management socialist" ideology and of the Party's attempts to enforce discipline from the center, and in part as an externalization of the complicated internal pressures on the regime. The US in particular is seen as a relatively safe target. For example, Tito in an interview in February said in effect that Uncle Sam would put up with having his nose tweaked by the Yugoslavs and not "make an issue" of it. In fact,

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US patience with the Yugoslavs wore thin shortly thereafter because of their anti-US activities before and during the Security Council meeting in Panama, and we told them so. Despite this and other irritants, our bilateral relations have in general remained (in Tito's own evaluation) very good, indicated in part by continuing strong GOY interest in top-level visit exchanges, in the broadening of our economic cooperation, and in developing contact in the military sphere. Yugoslav relations with the Soviets have also been good since BREZHNEV visited here in 1971. But Yugoslavia has in no way compromised its independence or lowered its guard; it has continued to deny the Soviets the use of its territory and military facilities strictly limiting the frequency of Soviet military visits and confining Soviet aircraft and ships to the use of commercial facilities. The leadership was highly sensitive to charges of Yugoslavia's having "moved to the East". In his most recent significant foreign policy statement (his message to the Assembly of the Federation in April) Tito took care to stress his country's firm nonalignment rather than brotherly socialist ties with the Warsaw Pact states.

The Yugoslavs have continued to show progress in the economic sphere. The GNP is growing by about six percent a year, and industrial production by seven percent. However, activity has slowed recently because of a drop in total demand, shortage of raw materials, high cost of imports, illiquidity in some enterprises and under-utilization of plant capacity. Agricultural production remains at a relatively low level, partly because the government has not given sufficient assistance to private farmers (who account for 70 percent of the total agricultural production); shortages of agricultural commodities have pushed up price levels. The balance of payments showed a \$295 million current account surplus in 1972; foreign exchange reserves are now over a billion dollars.

As a result of the major improvements in balance of payments, priority attention is being directed toward potentially destabilizing social and economic factors. Inflation is the principal domestic economic problem; the cost of living is up nearly 20 percent from a year ago. Despite a battery of stabilization measures aimed at curtailing demand, inflationary pressures remain strong because of supply bottlenecks and increased dinar costs for imports, resulting partly from devaluation. Inflation has aggravated the problem of personal income disparities and has spurred reform of the tax structure. The overall unemployment rate is 7.5%; in the least developed areas of Yugoslavia the unemployment rate is not only very high (about 20%) but increasing. Yugoslavia needs at least 130,000 new jobs annually, taking into account labor out-flow from rural areas to urban centers and the natural growth in the labor force. The non-agricultural sector cannot absorb this labor increase at current levels of investment activity. Emigration

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has therefore remained a significant factor in absorbing surplus labor, although the government would like to work out measures to keep its skilled laborers from leaving Yugoslavia. Wide regional income disparities constitute a potential threat to all-Yugoslav cohesion, and the government has continued, even with decentralization of the economy, to channel resources to the least-developed areas of the country. Structural changes such as the shift of population from rural to urban areas are being handled in an orderly way, but the total spectrum of economic and social pressures operating on the political system remains substantial.

The need for capital and technology from abroad for internal development has remained a principal determinant of Yugoslav foreign economic policy. The Federal Executive Council has gone on record in support of expanded, long-term economic ties with the US. There is considerable concern here over the enlarged area of commercial discrimination against Yugoslavia resulting from the EC enlargement and the continued proliferation of preferential trading arrangements, as well as over the decline in Yugoslav trade with other developing countries. The Yugoslavs have recently signed a new non-preferential five-year trade agreement with the EC. The Yugoslavs have taken an increasingly active role as an observer in CEMA. They received a \$540 million Soviet clearing credit in November 1972; there has been no draw-down of this credit, although three project agreements have been negotiated involving a total investment of \$40 million.

PROSPECTS: The Yugoslav leadership appears to have made a good start toward installing political machinery and personnel to handle the stresses and strains of the immediate post-Tito period. The policy under Titoism of rotating officials and shifting them frequently between Party and government assignments -- with the "nationality key" now playing a more important role in choosing people than do credentials as an Old Fighter -- has produced a pool of fairly impressive leadership talent at the higher levels. The longer the collective leadership is able to continue to function with its legitimacy fully attested by Tito, the better its prospects for handling the succession period.

In the longer run, there is no reason to expect that truly collective leadership will prove to be more enduring in Yugoslavia than it has elsewhere. Clearly one man, the head of the Party, will have the best organizational springboard to power. The JNA, to the extent that it can be distinguished from the Party as a political force, can be counted on to support whoever appears most devoted to the cause of Yugoslav unity, best able to hold the country together in times of crisis, and best disposed to preserve and enhance the strength and the balance

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of the armed forces. For as long as political-economic policy supports the JNA as a viable instrument of defense, there is little prospect of Bonapartism in Yugoslavia.

We look for the Party to maintain effective control of political and social processes. The Yugoslav leadership plans to make the Tenth LCY Congress in spring 1974 a landmark session in reconstituting the fortunes of the Party. Constitutional changes, now in the process of "debate", will provide for worker-delegates to be injected into the assembly system at all levels and will presumably allow the Party, in the name of self-management, to have more direct control over the work of the entire Yugoslav political process.

Various tensions will continue to exist because of basic contradictions; attempts to make the LCY as much and as meaningful a part of Yugoslav society as the Party was during Partisan days will encounter apathy, cynicism and even open disaffection (particularly on the part of the youth); exhortations of "socialist morality" will have to contend with rising consumerism, the modern youth culture, and other attractions; appeals to support all-Yugoslav undertakings will find opposition, if less blatant than in the past, from supporters of nationality causes. Good relations among the nationalities and the machinery required to speed up coordination among the Republics and Provinces, particularly of economic undertakings, will be crucial for Yugoslav development over the next years.

Economic policy will be basic to the maintenance of national unity and security in the future. The thrust of GOY policy will be directed at strengthening the workers' self-management system based on free market principles; vigorous implementation of stabilization measures to counteract inflation; expansion of agricultural production; restructuring of industrial investment to improve efficiency; and channeling of more resources to the least-developed areas in an effort to reduce regional income disparities. We expect the Yugoslavs to place more emphasis in the future on improving the basic ingredients of long-term growth, such as more innovation, better use of skilled manpower, and new measures for mobilizing and channeling capital into productive enterprises, including agriculture. We expect real growth in GNP to continue at a rate of about six percent, but price increases will probably not be held below ten percent for 1973. A balance of payments surplus is expected in 1973 and the dinar has actually appreciated vis-a-vis some hard currencies.

Efforts will continue to integrate the Yugoslav economy into the world economy and to develop closer trade and financial relations with the convertible currency countries especially. In addition to closer ties to the EC, the Yugoslavs will

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seek more advantageous relations with CEMA in future, while remaining in an observer status. We expect the Yugoslavs to play an even greater role among the economically developing countries during the forthcoming negotiations on multilateral trade and international monetary reform as a reflection of their deep concern about the development gap and the "crisis of confidence" between the developed and the developing countries. In these negotiations we expect the Yugoslavs to seek preferential treatment for the developing countries in all areas, including SDR link, non-reciprocity on tariffs and equal treatment of all LDC's in the markets of developed countries. In view of their basic opposition to preferential trade arrangements between developed and developing countries, on both economic and political grounds, the Yugoslavs will probably be prepared to take some initiatives that would be mutually beneficial to US-Yugoslav trade, such as phasing out EC reversed preferences and the incorporation of special preferences into generalized preference schemes.

The Yugoslavs are not satisfied with the present US share in their total trade (about six percent) and can be expected to encourage closer economic cooperation with the US, including increased private capital inflow for joint venture investments, floating of securities on the US capital market, formation of a joint US-Yugoslav chamber of commerce and other measures to expand business contacts. Continued Western support, including trade measures to expand foreign exchange availabilities for the import of capital and technology, will remain fundamental to the strengthening of Yugoslav economic viability and independence.

Yugoslavia can be counted on to insure its future independence by maintaining a strong military, geared mainly to guerilla warfare against a potential occupier, the Soviet Union. The leadership is unlikely to abandon nonalignment in the foreseeable future, since a policy of nonalignment has given Yugoslavia a world platform to emphasize and get Third World support for its independence and to criticize "bloc" policies, including preferential trade arrangements. At times Yugoslav expressions of nonalignment will appear to cross the boundary into anti-Americanism; but it is also likely that conflicts of interest with the Soviets will develop from time to time, particularly as the Soviets concentrate more on their relations with the developed West and Japan to help satisfy their need for technology and capital than on relations with the underdeveloped and nonaligned states. Past experience indicates that the extension of credits to Yugoslavia from East or West in whatever amounts will not compromise the basic Yugoslav desire to maintain full independence.

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US POLICY TOWARD YUGOSLAVIA: THE CHALLENGE AND THE GOAL: The US will be challenged frequently in its relations with Yugoslavia in the years ahead. Nonalignment will inevitably bring Yugoslavia to take attitudes of confrontation toward the US, particularly as it supports Arab initiatives or makes special appeals to Latin American states to join the ranks of the nonaligned. It will be necessary to keep in mind the overriding value of Yugoslav independence when Yugoslav "non-alignment" is expressed in multilateral forums in ways which run counter to US policy aims and programs elsewhere in the world.

We must keep our lines of communication with the Yugoslavs open at all times and let them know what our interests, plans and priorities are (and hopefully discover what theirs are). In many cases we will not in fact be able to deter unwelcome actions on the part of the Yugoslavs. It will, even in such cases, be necessary for us to distinguish carefully between the instances when the Yugoslavs are merely being "difficult" as we see it and those when they are going beyond the bounds of acceptability. We should avoid permanent damage to US-Yugoslav relations by not allowing essentially minor events to escalate into a round of formal demarches, charges and counter-charges.

Our goal will remain that of supporting Yugoslav independence, unity, stability and economic viability. This goal will not change in the post-Tito years or in the instances when the Yugoslavs appear to be supporting an anti-American line. It is important that the Yugoslavs be kept aware that this is the basic goal of US policy toward their country. This will require keeping the dialogue going during the bad times as well as the good.

The more confidence there is among the Yugoslavs that the US Government understands their problems, knows what the realities and dynamics of Yugoslav internal and foreign policies are, and sympathizes with those measures aimed at strengthening Yugoslav unity, the better chance there will be for our relations to weather the inevitable storms without lasting damage. The continuation of the exchange of high-level visitors is essential in this regard. We particularly hope for a visit to the US by Premier Bijedic early in 1974. An early visit to Yugoslavia by the Secretary of Defense would give valuable support to the program being encouraged by both sides of working out more extensive contacts between the military/defense staffs of the two countries. Statements by American officials underlining our continuing interest in this country's integrity, independence and genuine nonalignment have an importance here which must never be underestimated. It is imperative that US visits and official statements by visitors treat Yugoslavia not as just one of the several Eastern European countries but as the special case it is: communist but not allied with the Warsaw Pact states.

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US economic support is crucial to assure continuing sound economic growth in Yugoslavia and thereby ease sectional tensions which could threaten future stability and cohesion. We should take steps to further improve the good existing relations with Yugoslavia in the economic, trade, finance and science and technological fields. These relations will develop faster with greater contact. From our side we should encourage early visits by Secretaries Shultz, Dent and Butz, all of whom have been invited by the Yugoslavs; vigorously support the idea of a joint chamber of commerce or mixed committee of businessmen to exchange views; and increase trade mission activity and USG participation in trade fairs in Yugoslavia. The encouragement of capital investment for joint ventures should receive even greater support from the US than in the past. We should provide appropriate assistance to the Yugoslavs in their efforts to float securities in the US capital markets in order to increase foreign exchange availabilities for the import of capital and technology. US support may take the form of statements to keep developments in Yugoslavia in proper perspective and of helping in other ways to insure the dissemination of accurate information on this country. We should continue to offer CCC commodity credits, which have been helpful in countering inflation. The policy of supporting an integral and viable federation will be enhanced by greater US economic activity in the least-developed areas of Yugoslavia and particularly in the field of agriculture. Export-Import Bank and World Bank credits will play an important role in this regard. In particular, we should be as forthcoming as possible on the Yugoslav request for US financing of high-protein feeds and of breeding cattle. The cooperative scientific and technological research program is an important factor in our bilateral relations; every effort should be made to find additional resources for deposit in the recently-established joint fund on a matching basis. Commerce should explore the possibilities for assisting the Yugoslav tourist industry.

We should work closely with the Yugoslavs during the forthcoming multilateral trade negotiations and be prepared to take joint or parallel initiatives on specific trade issues that serve mutual interests. Serious consideration should be given to a high-level US economic policy statement before the Algiers nonaligned summit and the Tokyo ministerial to make an impact on the Yugoslavs and other LDC leaderships and to improve the climate for negotiations on multilateral trade and international monetary reform.

The US Government should respond favorably whenever possible to Yugoslav requests to purchase US military items, since there appears to be a strong Yugoslav desire to diversify the JNA's sources of supply and end the virtually complete dependence on the Soviets.

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We should expand our information and cultural activities in Yugoslavia at a pace acceptable to the Yugoslavs, with immediate emphasis on the Information Center planned for Sarajevo. To increase our contacts in the face of new inhibitions and fresh sources of friction which may arise, we should be flexible in the administration of our various exchange programs. Hopefully we can increase the numbers of travelers by a persistent and imaginative quest for new and mutually beneficial areas of exchange and avoid any decrease in such travel.

Increased cooperation with the Yugoslavs in dealing with international terrorism in all forms will at times require great patience on our part. The Yugoslav role to date has been disappointing, despite the Yugoslav's own concern over emigre terrorism. We should make clear that we understand the critical threat which emigre terrorist activity represents for their country, while seeking to achieve the Yugoslavs' commitment to work also for measures aimed at other kinds of terrorism affecting them less directly.

The US in its policies and official statements should give proof of the confidence we have maintained throughout the twenty-five years of overall Yugoslav progress since Tito's expulsion from the Cominform that this country will meet crises successfully despite continuing problems of federalism, nationalism and economic development. Our stake in the success of the Yugoslav experiment is as great now as it was when we first committed ourselves to assist Tito's Yugoslavia to retain its independence. The critical period after Tito's departure from the scene will require us to reiterate and demonstrate in practice our confidence in Yugoslavia's future.

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